

Increasing capacity

Coming out of covid lockdowns we have been short of all kinds of capacity to supply goods and services. Some shortages of capacity had been building for a long time thanks to public policy and public services. Some have developed more recently. All were badly exacerbated by pent up demand during lockdown and by the impact of lockdown on the labour market.

The NHS lacked bed capacity before covid. Large extra sums were put in prior to the virus but the managers rarely managed to increase beds and provide the medical staff to deliver the extra treatments and operations needed. During covid Ministers made them put in a lot of extra Nightingale capacity. There was a reluctance to use it and then early closure of it, writing off the investment. Taxpayers also paid to take over most of the capacity of the private sector hospitals for the severe covid period. The Ministerial idea was to get much of the routine work on cataracts, hips, knees and the rest in covid free wards in private hospitals. There were reports of insufficient use being made of this capacity, so waiting lists soared. Somehow Ministers now need to direct more of the extra committed cash into providing more capacity to tackle the enlarged backlog.

Many highways authorities around the country have been busy reducing road capacity by traffic management measures and closures of lanes and through roads in the name of being green. The result is more congestion, more exhaust pollution in traffic jams, an increase in business costs, delays with deliveries and general inconvenience.

I have written recently about the water regulator, doubtless in part responding to EU directives, trying to cut individual use of water and leaving us short of reservoir and borehole capacity. The ultimate renewable resource is now scarce. No proper additional water provision has been made for the millions of migrants who have come to our country this century.

We are in the midst of a shortage of gas and electricity. Some days wind turbines only manage 2% of our electricity, well under 1% of our total energy yet the Regulators seem to think more windfarms are the answer. Ministers have now altered their line and accepted that at least for this decade we need more gas. Until there are good commercial ways of storing wind power on windy nights to use on calm days we need more reliable power. We now need to promote more U.K. gas, oil, biomass and hydro power as quickly as possible. Ministers were right to keep what little coal generating plant we have left on stand by in case the renewables produce too little.

Amidst all the talk of excessive bills there needs to be focus on solving the underlying problem of power shortage. We cannot rely on imports from a Europe even shorter of energy than us. Even friendly Norway may not have electricity to spare as low water levels mean less hydro. France is struggling to keep her big but ageing nuclear fleet going. we need more of our own power. Of course government needs to help those in need pay their bills, but we have to solve the underlying scarcity rather than press on with ever more

subsidies and regulatory complexities.

No to The Venezuela model

If you want to end up with many in poverty and many fleeing your country to escape economic disaster you should follow Venezuelan policies.

They sought to control a wide range of prices below the level business needs to charge. This slashed supply and drove more businesses into bankruptcy, or stopped people trading there. Then they nationalised key industries. This drove out what remained of overseas capital and technical skill. Venezuela converted herself from being one of the most important oil producers into a country struggling to produce a small fraction of potential. The country lost big revenues.

The Starmer plan to stop energy prices going up will require taxpayers to subsidise energy companies otherwise trading at a loss, or require large sums to bail out energy companies that have gone bust. How does it help a customer to save money on the energy bill, only to have to pay more tax to deal with the corporate damage? The current price controls failed to stop prices going up and bankrupted a lot of companies. Bulb is proving a dear pensioner of the state as a result.

You can have competition in water

There is competition in water provision for businesses in our system. The householder cannot switch suppliers so most of us have to get our water from a regulated monopoly. These companies are now under the spotlight as there is an overall shortage of stored water for a dry spell so far this year. There are also too many sewage discharges into our rivers.

The nation should also be alarmed that we are constrained from doing things that need access to more water. Farmers are discouraged from irrigating more food crops, and are prevented from extracting sufficient water from rivers when flows are low for obvious reasons. The water companies have not done enough to help them find access to safe water in dry periods. Some industrial activities also need plenty of water, and the generation of power from water needs ample supply.

The competition allowed in business water provision allows choice of retailer who provides the customer interface, sends the bill and deals with issues. The retailer, however usually has to buy the water and the waste water

services from the local monopolist, so the impact of choice is limited.

The simplest model to bring more effective water competition to the many is to allow any water company to supply to any consumer using the existing pipe network as a common carrier. This will reduce the amount of regulated monopoly considerably and will allow new entrants to invest in new storage or borehole water they can provide in addition to current amounts. The pipe network will need rules on quality of water put in and on access rights to pipes given their capacities. The existing rules on water quality should suffice and are already being enforced. Where a monopoly pipe is already being used by the monopolist at full capacity then there will need to be a new pipe anyway and that might then be put in by a competitor if the monopolist refuses to make more pipe capacity available. Over time we might see new capacity to the pipe system added by new owners, or arranged by the current pipe monopolists accepting a regulated return on its use.

Competition is the customers' friend

All monopolies conspire against their users. State owned ones also conspire against the taxpayers that own them. As some used to say "We do not own the nationalised industries, they own us". Any loss or outrage they commit means we have to take the blame and pay the bill.

Monopolies are usually created by law and regulation. Some are said to be natural, but it is difficult to find many of these in large scale provision of goods and services. Of course the owners of the Taj Mahal or the Tower of London have a monopoly of their visitor attraction. The suppliers of water or of electricity or of rail travel need have no such monopoly. In each case it is possible to allow or encourage competition.

State and private monopolies have a tendency to avoid innovation, not wanting to undermine their own way of doing things. They have a tendency to cost plus, allowing their cost base to expand in the knowledge they can pass the costs on to the consumer. They may keep supply tight by not investing in sufficient additional capacity to provide an excuse for high prices and poor service.

State monopolies are particularly good at blaming customers for wanting too much and expecting too good a service. The shortage of roadspace for a growing population in the UK leads to constant demands that we travel less, not to more provision. The shortage of capacity to turn round passport and driving licence applications leads to delays in receipt. Many Councils keep parking dear and scarce to put people off visiting their town centres.

Highly regulated monopolies in the UK are also good at rationing and blaming customers. The water companies, far from wanting to meet expanding demand with more supply, impose limited use bans and try to educate us into using

less water. The railways are not good at meeting peak demands with enough trains with enough seats, though the decline in daily commuting has eased this tension somewhat. Big popular events often remain badly served by public transport. The electricity system often needs imports to keep the lights on as it is run with insufficient domestic capacity. Customers are told to cut their use and to switch their use to different times and night and day.

In some pieces to follow I will look at what scope there is to increase competition in regulated monopolies where customers pay for the service and what this might achieve in terms of more capacity, better service and lower prices.

Yesterday's meeting on energy

The proper topics of conversation were availability of supplies and prices. Gordon Brown's attempt to hijack the agenda with a proposed nationalisation of parts of the energy industry was bizarre. His own purchase of RBS shares during the banking crisis at an elevated price bailed out shareholders and left the taxpayer nursing large losses. It was not the right answer to a disaster in the banking sector and over the regulation of banks which he made worse. The last thing taxpayers need now is the requirement to find billions of pounds to acquire shares in energy companies, with a view to then running them at a large loss to keep the prices down.

The answer to scarce and dear energy has to be the supply of more and cheaper energy. That requires plenty of private sector investment, and sensible regulation where there are monopoly elements. If the only aim of regulation is low prices we will end up with less energy, losses for the taxpayer to pay and an eventual larger price hike from weak supply. Look what happened to Bulb. The state interventions did not keep the general price of power down but we have losses to pay.

The Lib Dem idea of simply freezing the prices we pay answers nothing. Who then buys in and provides the energy and who covers the losses on doing that? Why indeed would a company volunteer to supply at a large loss?